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ORIGINS OF THE CORPORATE EXECUTIVE

One of the recurring problems in the study of management theory concerns the authority relationships between stockholders, officers, and directors of corporations. The power centers in the corporate form of enterprise are quite different from those that obtain in an individual proprietorship and in a partnership. In addition, many differences between these types of legal organizations may be noted as one considers them from the point of view of the source of executive authority or from the viewpoint of statute law and its interpretations.

Economists have explained at some length the relative advantages of the various forms of legal organization of enterprise. The corporation itself has been the subject of intensive study by specialists in many fields. But nowhere can a satisfying answer be found to the question: Why do corporations have boards of directors in addition to officers?

It is a peculiarity of the members of the state and federal governments that in their debates antecedent to the passage of the general incorporation laws or of bills to incorporate specific enterprises no mention was made of any *reasons* for requiring a board of directors. Of course, it is possible that discussions of this point were not recorded. But it is more reasonable to infer that no such discussions took place. The directorship in corporations has ancient antecedents. Rather than raise the issue of whether to require directors it was much more likely that the practice was merely imitated. Modern authors do not even raise the question. Sometimes they think they do when they describe the functions of the board on an *ex post facto* basis. But there is a deal of difference between the questions, Why have a board? and What should a board do?

The Historical Evidence

An attempt to trace the history of the board of directors and officers back to their origins plunges one into a veritable maze of problems. Not the least of these is the matter of terminology. Historical sources are so filled with such familiar terms as corporation, governor, assistant, officers, etc., that the unwary are strongly tempted to apply

to them their modern connotations. No error could be more serious. The careful investigator must recognize two issues. The first is the origin of *words* and the second is the origin of *ideas*. The names by which the executives of enterprise were known must be distinguished from the functions which they, from one time to another, performed.

A second problem concerns the selection of material for study. The modern businessman ought to be aware that, as far as one can see into the past, business activity has been extremely vigorous and widespread. The corporate form of organization has been widely employed at least since Greek and Roman times; and at least since the end of the eleventh century the business activity of corporations in England has been enormously impressive. Consequently, the problem arose as to what particular business corporations to select for this study. It seemed desirable, on the whole, to give consideration to large representative corporations, or corporation types, with an overlapping period of existence covering the time from the eighteenth and early nineteenth centuries back to as early a period in the history of America and England as their organization could be traced. Those enterprises which were selected are listed on pages 60-61.

Still another factor is important in examining the historical record. The distinction between directors and officers of the corporation becomes increasingly blurred as one probes into their historical origins. The one cannot be studied without the other. Until very recently the scribes and historians have been blissfully unaware that students may be interested in such details of organization as the nature and powers of corporation executives. Consequently, it is really most difficult to be certain about the authority and duty relationships of shareholders, directors, and the active managers of the early corporations. The information which has been reported is extremely vague, often improperly interpreted, and woefully incomplete. The theory of management is obviously a very new field of inquiry!

Omitted from the tabulation on pages 60-61 is the record of any corporation dating from Greek or Roman times. Students are certain of only two important groups of facts relating to these ancient organizations and neither sheds light upon their management. The first has to do with the nature of the *collegia* of Roman times; the *collegia* consisted of three persons called *corporati;* a family of *collegia* was called a *universitates;* the *collegia* could hold property in common, it might sue and be sued, its rights and the rights of the several members were legally separated, it remained in existence even though all

of the individual members changed, and it was governed by its own bylaws so long as the latter were not in conflict with Roman statutes. The second concerns the origin of the *collegia:* it did not originate with the state, whether by special act of incorporation or by formation in accordance with a general incorporation law.[1] These organizations were purely voluntary associations of private persons.

In the period between the fall of Rome and the rise of the English gilds, history is silent about many things and one of these is the corporation. The legal profession has attempted to fill this void and has followed Blackstone in the bland assumption that the corporate forms which emerged into the light of history in the eleventh century could be descended from the Roman *collegia*. This view is buttressed by the guessing of one writer on early English history who gave attention to this issue.[2] Those who would hold to this view also point out the possibility that the Church was the carrier of the corporate idea through the period in question. There is no doubt that the Church itself used this form of legal enterprise for the maintenance and transmission of its property. Whether the Church also fostered private lay associations for community effort is questioned by a recent study which holds that, "Although the Church made much progress in refining the dialectic of the concept of corporate form, it contributed hardly anything to the expansion of corporate purpose."[3] It would appear that the most that can be said about the medium of the Church as a transmitter of the corporate idea is that this type of organization *could have been* imitated by both boroughs and businessmen.

Modern research points to the fact that the gild, the precursor of the modern corporation, existed in England in pre-Norman times, even though the earliest-known charter of a merchant gild is that granted to Burford in Oxfordshire between the years 1087 and 1100.[4] The gilds were unquestionably a manifestation of the associative tendencies of mankind and they were a natural development from the time that the kin-bond or *maegth* began to weaken. When the

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[1] On this point see Max Radin, *Legislation of the Greeks and Romans on Corportions* (New York, 1909), p. 97.

[2] J. M. Lappenberg, *A History of England under the Anglo-Saxon Kings*, trans. Benjamin Thorpe (London, 1845), vol. i, p. 36.

[3] C. A. Cooke, *Corporation Trust and Company* (Manchester, 1950), p. 19.

[4] R. T. Davies, *A Sketch of the History of Civilisation in Medieval England, 1066-1500* (London, 1924), p. 336.

student finds that the organizations which people develop for community purposes have striking similarities, it is not only unnecessary but quite unscientific to assert that they *must* have had a common origin.[5] Consequently, there is a strong presumption that the English gilds were native organizational forms of enterprise which gradually acquired the basic corporate characteristics. The characteristics themselves may have been created through necessity, or, when the necessity arose, they may have been borrowed from the religious societies.

In any case, when the historian again took up his pen he reported that there was active and widespread use of the corporate form by businessmen, particularly those who were engaged in foreign trade. And, unless they were forced to secure confirmation of their privileges from powerful ecclesiastical and lay barons, the merchants organized the enterprise voluntarily.[6] It is to these enterprises that the attention of the reader is now directed for the purpose of obtaining a clearer understanding of the development of executive organization.

ANTECEDENTS OF THE ANNUAL MEETING OF SHAREHOLDERS

As far as the English record goes, the right of the corporate members to assemble has been conceded, at least from the time of the gilds.[7] In the time of the merchant and early craft gilds there was no one to deny this right. In fact the gild itself was a voluntary corporation composed of the merchants, and later the master craftsmen, of a community formed for the purpose of safeguarding their monopolistic rights to trade. Their officers and members (except in the instances where "outsiders" were admitted) were the officials and citizens of the boroughs. Only when these organizations were no longer able to

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[5] Cf. Walter Besant, *Survey of London* (London, 1908), vol. i, pp. 206-207.

[6] Cf. J. Malet Lambert, *Two Thousand Years of Gild Life* (Hull, 1891), especially chap. vi.

[7] The stages by which a true corporation emerges have been well stated by Max Radin, *op. cit.*, p. x, as follows: "We have first the individual persons, then a loose association of several of them to accomplish a temporary and definite end. As the end grows in importance and permanence the association becomes more fixed in its forms. Ultimately the end transcends the lives of the individual persons, becomes more important than the latter, and where these facts are recognized by the law, is invested with a distinct and new personality. Then and not till then, the true corporation arises."

protect themselves from the piratical encroachments of feudal lords and nationalistic kings did they apply to these sources for a charter which would guarantee the rights, sometimes in restricted form, which they had possessed in peace for decades and centuries. This precedent of granting charters by the political authority was seized upon in the seventeenth and subsequent centuries as establishing the right of the sovereign, and later of the parliament, congress, or assembly, to grant charters and thereby control the corporation. It can be argued that this development was inevitable in view of the rise of nationalism which brought with it greater political unity, better communication, and much broader business interrelationships with the concomitant, competition.

That the businessmen of the times valued the right of assembly very highly may be inferred from the frequency with which they approached the sovereign for a charter to guarantee them in their right. Indeed, this was the main reason for the grants made in the fifteenth and sixteenth centuries to such groups of merchants as those trading in Prussia and in Spain.

The title of the assembly of members has some interest. No special term was used by the early gilds, probably because all of the traders were members of the corporation. At least since the sixteenth century the term "court" has been widely employed by English enterprises. In the United States no title has been used unless one considers the clumsy, prosaic phrase, "annual meeting of shareholders," to be a title.

Historically, the number of times per year that the assembly of members met has tended to decrease. In the earliest of the gilds very little power seems to have been conferred upon the officers; consequently it may be assumed that the members were expected to meet frequently, possibly quarterly or monthly, for the transaction of business. By the sixteenth century the assembly or general court of the Muscovy Company elected officers on an annual basis. This fact may indicate a general meeting held only once a year. But at the same time the Merchant Adventurers followed the practice of electing some officers martly, *i.e.*, at the opening of the market period, and thus it appears that the general court of this enterprise must have met quarterly. At the beginning of the eighteenth century the court of proprietors of the East India Company and the Bank of England met at least four times a year. But the gradual tendency of members to meet annually seems to have become the usual practice because this

HISTORICAL ANTECEDENTS OF CORPORATE DIRECTORS AND OFFICERS

Company	Charter Year	Officers: Chief	Officers: Deputy	Officers: Board	Powers of Members	Powers of Officers
Gilda Mercatoria [a]	12th & 13th centuries	Alderman	Stewards, deans, skevins	bailiffs	Assembly elected officers annually from members	Discipline; admit new members
Craft Gild [a]	14th century	Masters	Wardens & stewards	12-20 assistants by, at least, 1463	Regulated and preserved the monopoly of their occupations; passed bylaws; elected officers from members	Discipline; represent the craft
English Merchants Resident in Prussia [b]	1404	Governors			Right to assemble; pass bylaws; elect governor from the members	
Merchants Trading to Andalusia [c]	1531	Councilor(s)		12 assistants	Right to assemble; pass bylaws; elect officers from members	
Muscovy Company [d]	1555	1 or 2 Governors	4 Consuls	24 assistants	Court of members elected all officers annually from among the membership	Full legislative, judicial and administrative authority
Merchant Adventurers [e]	1564	Governor	Deputies	24 assistants	General Court elected governor annually, other officers martly; admitted new members; established local posts	Passed bylaws; Executive powers
Eastland Company [f]	1579	Governor	Deputy	24 assistants	Court, Assembly, or Congregation passed bylaws, elected Governor and deputy for one year and assistants during good behavior	Executive powers; expel assistants
East India Company [g]	1600	Governor		17 committeemen	General Court elected committeemen	Committeemen elected from their number a governor annually.
	1693	Governor	Deputy	17 committeemen	General Court elected committeemen	Committeemen elected from their number a governor annually.
	1698	Governor	Deputy	24 directors	Court of Proprietors elected directors for one year; passed bylaws	Until 1714 directors met weekly and appointed a new chairman each time; thereafter chairman and deputy elected for one year.
	Act of 1773	Governor	Deputy	24 directors	Elect 6 new directors annually	Proceedings to Secretary of State
	Charter Renewed 1784	Governor	Deputy	24 directors	Elect 6 new directors annually	Secret Committee of directorate transmitted orders to India without consulting colleagues. Directorate confined to commercial affairs.

COMPANY	CHARTER YEAR	OFFICERS CHIEF	DEPUTY	BOARD	POWERS OF MEMBERS	POWERS OF OFFICERS
	1833	Governor	Deputy	24 directors	All assets and the right to trade exchanged for an annuity from the Crown.	Directors and Crown's Board of Control appointed Governors of India.
	1853	Governor	Deputy	18 directors	Proprietors elect 12 directors. Six appointed by the Crown.	
	1858	Governor	Deputy	5 directors		
	1873				Dissolution of the Company	
Hudson's Bay Company [h]	1670	Governor	Deputy	7 committeemen	General Court elect from its membership all officers annually; depose and replace them	Executive was committee or 3 committeemen plus governor or deputy
	1884	Governor	Deputy	All officers composed "Board." 3 retired yearly.	Use of proxies permitted	Permitted to resign. Four board members the executive
	1892	Governor	Deputy	7 to 9 members of Board	Declared dividend out of profits if recommended by Board	Declare interim dividend
	1912	Governor	Deputy	Word "Director" used	Declared dividend out of profits if recommended by Board	Propose changes in capital structure to general court
Bank of England [i]	1694	Governor (could serve for not more than 2 yrs.)	Deputy Governor	24 Directors; meet weekly; ⅔ eligible for re-election	Court of Proprietors; meet quarterly; elect officers annually; adopt bylaws	Officers responsible for entire management of Bank.
	8 sucessive renewals to 1833	Governor (could serve for not more than 2 yrs.)	Deputy Governor	Prepare "house list" of new directors	Approve directors' house list; power to change election procedure	Officers responsible for entire management of Bank.
Bank of North America [j]	1781	President		12 directors	Shareholders elected board of directors at annual meeting; passed bylaws	Directors elected one of their number president each year.
Bank of the United States [k]	1791	President		25 directors	Shareholders elected board of directors annually; ¾ of board eligible for re-election; fixed salary of directors	Directors elected one of their number president annually; fixed salary of president

[a] Edward P. Cheyney, *An Introduction to the Industrial and Social History of England* (New York, 1919), chap. iii.

[b] Richard Hakluyt, *The Principal Navigations, Voyages, Traffiques, and Discoveries of the English Nation* (Glasgow, 1903), vol. ii, pp. 108-110.

[c] R. H. Tawney and E. Power, *Tudor Economic Documents* (London, 1924), vol. ii, p. 30.

[d] A. J. Gerson, E. V. Vaughn and N. R. Deardorff, *Studies in the History of English Commerce in the Tudor Period* (New York, 1912), p. 201 ff.; Hakluyt, *op. cit.*, p. 240.

[e] William E. Lingelbach, "The Internal Organization of the Merchant Adventurers of England," *Transactions of the Royal Historical Society* (London, 1901).

[f] Gerson *et al., op. cit.*, p. 254 ff.

[g] John W. Kaye, *The Administration of the East India Company* (London, 1853), chap. iv; C. L. Reid, *Commerce and Conquest, The Story of the Honourable East India Company* (London, 1947).

[h] *Charters, Statutes, Orders in Council etc. relating to the Hudson's Bay Company* (London, 1931).

[i] W. M. Acres, *The Bank of England from Within* (London, 1931), vol. i, bk. i; M. J. Quin, *The Trade of Banking in England* (London, 1833), chap. ii.

[j] M. St. Clair Clark and D. A. Hall (ed.s), *Legislative and Documentary History of the Bank of the United States* (Washington, 1832), chap. i.

[k] *Ibid*,, chap. ii.

rule was followed without hesitation by the Hudson's Bay Company and by the early American banks.

With relatively few exceptions it appears to have been the duty of the general courts, as the meetings of stockholders or members were called, to elect the officers (including "directors") and to adopt the bylaws of the enterprise. For a time during the sixteeenth century the officers adopted the bylaws. But this seems to have been the direct result of the common dictatorial practices of the wealthy merchants who deliberately sought to disfranchise the poorer members of the corporation.[8] With the establishment of the Eastland Company the original practice of having the assembly of members act as the legislature for the enterprise was resumed.

The general courts always elected at least some of the officers and those so designated were required to be members of the corporation. The latter requirement has come down to us without interruption. Some American states still require a board member to hold at least one share of stock: in most cases, however, it is the articles or bylaws which contain this proviso. Variation did appear, however, in the particular officers which the general court elected. With two exceptions, the English practice has been for the court of members to elect all of the officers. Not until the time of the East India Company was the general assembly deprived of the right to elect the governor. The Hudson's Bay Company followed historical precedent except in the case of a casual vacancy in either the office of governor or his deputy. Then the committeemen (directors) were permitted to make an interim appointment from among their own membership. American practice in this regard seems to have followed the precedent of the East India Company. However, an authority on the early corporation in this country, does report[9] at least one instance wherein a 1772 Act of the House of Burgesses in Virginia, sponsored by George Washington, provided that the subscribers to a scheme for the opening of navigation on the Potomac should elect both a president and eleven trustees or directors.

The eventual practice adopted by the general court of the Bank of England should serve as a warning against placing too much confidence in the stated legal right to elect the officers. By the close of

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[8] See George Unwin, *The Gilds and Companies of London* (London, 1908).

[9] Joseph S. Davis, *Essays in the Earlier History of American Corporations* (Cambridge, 1917), pp. 112-113.

the eighteenth century this court was approving without exception the "house list" of candidates for directorships which the court of directors prepared and submitted annually for confirmation. It is impossible to say whether the directors merely acted to fill a vacuum created by a general court which lacked initiative and leadership, or whether the directors simply had seized the nominating prerogative.

DEVELOPMENT OF THE BOARD OF DIRECTORS

Although the early gilds elected a rather large number of officers, there is not a clear distinction of a potential "board of directors" among their numbers until 1463. In that year the mercers of London passed the following resolution:[10]

> It is accorded that for the holding of many courts and congregations of the fellowship, it is odious and grievous to the body of the fellowship and specially for matters of no great effect, that hereafter yearly shall be chosen and associated to the wardens for the time being twelve other sufficient persons to be assistants to the said wardens, and all matters by them finished to be holden firm and stable, and the fellowship to abide by them.

While this may not be the first occasion of the election of assistants to the warden, or chief executive officer, it is probable that it does represent a major change in organization which occurred in that century. The inference which one draws from the descriptions of the way the early gilds conducted their business is that all of the members were expected to assemble on call of the warden for the purpose of conducting corporate business. But very soon the gilds ran into trouble with members who failed to attend. Various efforts were made to secure attendance, such as fines, and election to some gild office! These measures rarely had the desired effect. Such circumstances probably gave rise to the idea of constituting the few faithful members as assistants to the warden. The fellowship elected all of the officials, including the assistants, but henceforth the business of the gild was apparently conducted by the wardens and assistants sitting *en banc*.

The term "assistants" was commonly applied to this group of officials until the beginning of the seventeenth century. In the case of

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[10] Quoted by Edward P. Cheyney, *An Introduction to the Industrial and Social History of England* (New York, 1919), p. 150.

the East India Company the group was called "committeemen" at first, and changed to "directors" in 1698. The Hudson's Bay Company titled the group "committeemen" until 1884 when the term was changed to "board" (which included committeemen and the governor and his deputy). The 1912 charter supplement used the word "director" without in any way indicating its meaning or antecedents. The Bank of England employed the term "director" from its foundation. American experience used the term "trustee" and "director" interchangeably in the early eighteenth century, but when the banks were chartered the term "director" was employed.

The number of men in this group (see pages 60-61) has varied from seven for the Hudson's Bay Company to twenty-five for the first Bank of the United States. Twelve and twenty-four were the most frequent numbers, but there was no trend toward fewer or more members. And of course there is, apparently, no explanation concerning the reason for the selection of a particular number.

Excepting only the cases of the East India Company and the 1884 supplement to the charter of the Hudson's Bay Company, English practice was to withhold from the assistants, committeemen, or directors the right to elect the chief executive. Current practice in the United States thus appears to be inconsistent with historical precedent. Since Revolutionary times this power has been in the hands of directors. It is usual to explain the possession of this right by saying that the dispersion and apparent lack of interest or knowledge on the part of shareholders precludes them from intelligently selecting a chief executive officer. But when the Merchant Adventurers Company was chartered there were 53 members, the Eastland Company had 65 original members, and the East India Company, 101. Surely this difference in numbers does not account for the drastic change in practice which the latter company introduced. Nor do the original 1,000 shares of capital stock of the Bank of North America indicate that the above-mentioned reasons for granting to the directors the power to select the chief executive officer were particularly applicable. Possibly the real reason was that the directors held the most substantial ownership interests in the corporation and, thinking to protect themselves, deliberately assumed the right to choose the chief officer. Such an arrangement would be easy to achieve at the time that the articles of association were circulated and subscriptions to the stock were taken.

With few exceptions, the directors (including their more ancient

titles) were elected for a term of one year. The Merchant Adventurers elected their assistants more frequently, but, on the other hand, the assistants of the Eastland Company held office during their good behavior. No legal bar to the re-election of a director appears until an Act of Parliament in 1697[11] required staggered terms, and the election of eight *new* directors of the Bank of England each subsequent year. This provision was, however, contained in the 1694 bylaws. Parliament forced a similar change in East India Company practices in 1773. In 1884 the supplement to the original charter of the Hudson's Bay Company required the retirement of three (or the closest number thereto) board members each year. However, in both of these cases there was nothing to prohibit the re-election of directors after a one-year period of retirement. In this respect American practice, with the exception of the first Bank of the United States (wherein one-quarter of the directors was ineligible for re-election in the succeeding year), has not followed the English precedent.

As a rule, the actual powers exercised by the assistants, committeemen, or directors remain most obscure. The charters do not clearly distinguish the powers of the several officers; it was left to the membership to work out this matter, and, as pointed out above, the fellowship was much inclined to abdicate in favor of a small active group of parties interested in the vigorous prosecution of corporate affairs. Consequently there are few cases where one can say more than that the elected officers as a body were responsible for operating the enterprise. But perhaps this very point is significant. Despite the fact that the merchants in the Muscovy Company chose, ". . . certain grave and wise persons in manner of a Senate or companie, which should lay their heads together, and give their judgments and provide things requisite and profitable for all occasions . . . "[12] it is nevertheless true that the executive was comprised of a minimum of fifteen voting officers including one governor and two consuls or including three consuls. The directors of the East India Company met weekly and between 1698 and 1714 they elected a new chairman each time. Thereafter the practice was to elect a chairman and a deputy chairman for a term of one year. The reader would conclude from the

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[11] 5 and 6 William and Mary, c. 20.

[12] Richard Hakluyt, *The Principal Navigations, Voyages, Traffiques, and Discoveries of the English Nation* (Glasgow, 1903), vol. ii, p. 240.

writing of one chronicler of East India Company affairs[13] that the persons who held these offices were separate and distinct from the governor or deputy governor of the company. If this is correct the practice of the India board is a direct antecedent of our familiar official, "chairman of the board." The original charter of the Hudson's Bay Company specified that the executive was composed of the committeemen, or three committeemen plus either the governor or his deputy. In 1884 the executive was composed of any four members of the board (defined as including the governor and his deputy). Apparently the Bank of England has always been actively managed by directors' committees. Early American practice is similarly befogged by lack of information but it is probable that the beginning of the modern differentiation between the duties of a board and of the chief executive was indicated in the charter of the Bank of North America wherein the board, required to meet quarterly for the general purpose of regulating the affairs of the bank, was given specific authority to determine the manner of doing business, the rules and forms to be followed, appoint officers, dispose of the money and credit of the bank, pay dividends, sell additional stock from time to time, and to inspect and control the business of the bank.[14] This enumeration of powers indicates that while the board was concerned mainly with policy formation and control, the president (whose duties were not specified) must have acted for the company in its conduct of daily business—a division of duties which is generally the current practice in modern incorporated enterprises. This surmise is strengthened by the provision in the charter of the first Bank of the United States wherein, "The stockholders shall make such compensation to the president, *for his extraordinary attendance at the bank*, as shall appear to them reasonable."[15]

THE CHIEF CORPORATE OFFICER

The common designation of the head of the merchant gilds was "alderman," who was described as " . . . ye yldeste man of tham heape."[16] The craft gilds preferred the title "master." In 1404 the

[13] Cf. John W. Kaye, *The Administration of the East India Company* (London, 1853), p. 123.

[14] M. St. Clair Clark and D. A. Hall (ed.s), *Legislative and Documentary History of the Bank of the United States* (Washington, 1832), p. 12.

[15] *Ibid.*, p. 32. (Italics in quotation are mine.)

[16] Quoted by J. M. Lambert, *op. cit.*, p. 105.

designation "governor" was employed, and with the exception of the merchants trading to Andalusia, this remained the title of the chief executive of English corporations down to very recent times. (During the twentieth century the title of the chief executive of commercial and industrial corporations is commonly "managing director." This title is, however, quite unofficial in the sense that it does not appear in the general incorporation statute. Indeed, the only officer named officially in this document is "secretary.") American practice has not followed in this respect. The term "president" was generally preferred even prior to the Revolutionary War, but occasional usage of "treasurer" and "governor" may be noted.

The preference of the members of English corporations during the fifteenth and sixteenth centuries for plural chief executives was more apparent than real. In this respect the data in the tabulation on pages 60-61 can be misleading. The English merchants trading in Prussia and Andalusia were by no means a well-knit group. Rather it was the practice for several of them to settle in many foreign towns and it was these small groups which were given the right to assemble (locally) and to elect a governor—one to each town. The charter of the Muscovy Company is an exception to the rule. Although it provided for one or two governors, as long as he lived, Sebastian Cabot was in fact the sole governor. The new charter issued to this company in 1566 retained the provision for dual governors and in succeeding years advantage of it was taken to elect two officers who had in all respects equal authority.[17] But a few years later when the Merchant Adventurers received their charter, a single chief executive was provided for, and this remained the English, and, indeed, the American practice down to modern times.

As indicated above in the discussion of the board and of the assembly of the fellowship, the chief executive usually was elected by the general court. But the East India Company charter provided for his election by the committeemen and this practice has been followed generally in American corporations. The term of office for the chief executive was one year. There were no exceptions to this rule. His annual re-election seemed to be taken for granted, but this was not an unbroken custom. The gilds of both merchant and craft type definitely leaned toward rotation in the office of chief executive; and

[17] A. J. Gerson, E. V. Vaughn, and N. R. Deardorff, *Studies in the History of English Commerce in the Tudor Period* (New York, 1912), pp. 25 ff.

the requirement that members of the board in the Hudson's Bay Company be rotated applied also to both the governor and his deputy.

Among the several companies included in this study, only the charters of the Muscovy Company and of the American banks reflected the belief that the chief executive should act in fact as an executive and not be required to share his authority with other officers. These are the cases which show the governor or president emerging as a single executive—a concept very familiar to us now, but one which took a long time to develop. It is clear that there was not an urgent need for a single executive in those cases where there remained a definite distinction between the private business of a master or alderman and the conduct of the corporate business. But with the passage of time this difference actually disappeared. Occasionally the board and certainly the chief officer became full-time employees of the company. Under these circumstances it may have been as difficult to secure a quorum of directors as it formerly was difficult for the gilds to require the attendance of the fellowship. Indeed, toward the end of the seventeenth century the directors of the East India Company were subjected to fines for lateness and absence at meetings.[18] Directors of the Bank of England were similarly disciplined. As a natural consequence, a division of duties might be agreed upon whereby the board would retain general supervision and meet occasionally, but the chief executive would undertake the management of the daily business affairs. However, nowhere is there a suggestion that the relationship between the directors and the chief executive was thought out in accordance with a basic theory of the board.

THE DEPUTY CHIEF EXECUTIVE OFFICER

This office is purely an English concept. The gild charters do not indicate just who was to act in place of the warden or master but there is little doubt that this matter was clear to the members. The fact that the charters for both the Muscovy Company and the Merchant Adventurers provided for a plural deputy would seem to indicate that these officers developed from the body of assistants. They might very well have been the oldest, the dominating personalities or the most consistent in attendance upon company business. Gerson[19]

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[18] C. L. Reid, *Commerce and Conquest, the Story of the Honourable East India Company* (London, 1947), p. 50n.

[19] Gerson *et al.*, *op. cit.*, p. 29.

reports that in the case of the annual election of assistants the fellowship of the Muscovy Company selected twenty-eight and from these; ". . . the most expert and skilful. . . " were named consuls. There is, unfortunately, no reference to the question as to *who* selected the four consuls; nor is there any differentiation in duties between assistants and consuls. But, in view of the fact that the entire history of the English companies leads one to believe that the election of officers was the prerogative of the fellowship, it may be assumed that no deviation took place in the case of the four consuls of the Muscovy Company. The evidence strongly hints that only the East India Company followed an aberrant practice in this regard.

One point with respect to the status of the deputy is very clear. The charters specify that the deputy was to act *in place of* the chief executive in the latter's absence. In no sense was the deputy merely an assistant to the governor or an assistant governor. This concept of the deputy's function clearly implies that the chief executive officer was expected to be absent frequently or over long stretches of time. During these periods the business of the corporation must be transacted. It is known that the officers of the gilds were expected to continue their private business and that the executives of the later trading companies were frequently abroad on errands of both business and diplomacy. Consequently, the members of the several companies had a sound reason for electing a deputy to act in place of the governor in the latter's absence.

American practice has deviated in this regard from its English antecedents. Although corporation charters and bylaws may provide for one or more "vice presidents" this term describes a title and not an office. No duties are delegated to him who is so honored. If he does have duties it is because he is also the head of some functional office and is designated, for instance, as "vice president *and* sales manager." The chief executive is expected to be the active and continuous operating head of the enterprise, and the board sees that he acts in accordance with this expectation. This does not mean that business affairs may not take him away from his office. It does mean that when he is away he is "on business" of great import to the firm, and that in this day of improved transportation, communication, and managerial practices, the chief executive is permitted the opportunity to transact business wherever necessary and still retain active control of the company operations. In other words, a "need" for a deputy president is rarely felt now.

CONCLUSIONS

The most obvious conclusion to which this review of the organization of corporate enterprises points is that the board of directors has an ancient lineage. In fact, the presence of a board has always been a distinguishing mark of the corporate form of enterprise, not necessarily because of any legal requirement, but rather because the enterprise owners wanted it that way.

All of the officers, including the board members, were required to be members of the fellowship. Apparently no other arrangement was even thought of, so general was the practice. A permissible inference is that the several members of the fellowship felt their interests protected if the officers also had a substantial interest in the firm. In any case, it is quite clear that the main job of the officers was to manage the enterprise in the best interests of the members. But the early corporations had the same difficulty which modern firms have in providing for the effective exercise of power by the small shareholder. With the passage of time, and with the apparent difficulty of persuading the owners to attend general courts, control soon passed into the hands of an oligarchy. For instance, the management of the livery companies of London was definitely in the hands of the wealthy who acted as board members. Soon they acquired the right to name their own successors.

All of the charters laid upon the directors the duty of assisting the chief executive. But the meaning of this term is obscure. To "assist" may be interpreted to mean, "check up on," "help," "advise," "act as the executive," and "represent" the ownership interest. But none of these interpretations answer the question, Why was it considered necessary or desirable to "assist" the chief executive?

Clearly it was not because there was so much work to do that the chief executive needed help in its accomplishment. The presence of deputies in the English type of organization might have led to such a conclusion were it not for the contrary practice of American corporations. Of course it may be argued that the growth of knowledge respecting the functions of executives would tend to lighten the burden of the chief executive and thereby make unnecessary the presence of a deputy. But the early history of corporations, especially of the gild enterprises, would lead one to believe that the wardens were far from overworked.

Nor was the duty to "assist" based upon any idea that directors and the chief executive had different types of duties to perform. Indeed, on this point the evidence is quite clear that the early corporations had a plural rather than a single executive. Even in such recent evidence as the 1884 amendment to the charter of the Hudson's Bay Company one may point to the fact that any four of the directors had the power to act as the executive. It is not until one turns to the first Bank of the United States that there appears certain evidence that perhaps the chief executive and the directors do or should perform different activites. Indeed, the reader should be cautioned not to assume that the duties of wardens and governors were comparable in any understanding degree with the modern position of corporation president. (This seems to be the error made by those who attempt to distinguish the functions of assistants and governor in the Merchant Adventurers Company.) The position of these officers was actually much closer to the modern concept of "chairman of the board."

It is difficult to read into the history of corporation offices any hint that one of the duties of the assistants, or committeemen, or board was to act as a curb upon the power of the principal executive. This issue does not seem to have arisen despite the fact that at least some of the wardens and governors were certainly dominating leaders. It is, for instance, difficult to imagine Sebastian Cabot, governor of the Muscovy Company during its first two years, as anything but a forceful personality. But the evidence points so unmistakably to the general conception of a plural executive that there is little reason to expect the fellowship or the board to show any concern about the power of a chief executive.

On the other hand, there is a definite impression that the election of several officers by the general court was decided upon in order to obtain a higher quality of decision-making. It is, of course, quite possible that the strong flavor of political, as well as economic, power of the corporation would make the early organizers think of executive relationships which would somewhat imitate the sovereign-and-councilors organization of contemporary states. Scholars are aware of the tremendously strong tendency of human beings to be imitative and to be creative only with respect to the fund of past knowledge.

But in addition to this factor, there is a strong presumption that the election of a group of officers to manage the corporation was decided upon in order to allow all of the fellowship to benefit from the pooled knowledge of widely experienced traders.

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THE WILLIAMS BROTHERS, MERCHANTS AND SHIPPERS, 1825-1850

When the Williams brothers migrated from Connecticut to New York State in 1825 they established themselves as country merchants, yet their activities bore a distinct resemblance to those of the seaboard merchants of the late eighteenth century. Although divorced from international trade, the Williamses exhibited the same dependence on country produce, the same need to exchange produce for specie and specie for manufactured goods as did the House of Hancock.[1]

Three patterns emerge clearly from a discussion of commercial enterprise in the development of central New York in the period 1825-1850. The pivotal one is the pattern of transportation; from the central and western sections of New York State, via the Erie Canal to Albany, and down the Hudson to New York City were shipped the lumber and wheat, the butter and potash of the rural, near-frontier areas. A primary concern of the Williams brothers was to build up an organization that would utilize profitably the possibilities inherent in this long line of transportation. A second pattern involves the lack of specialization in the function of the merchant, a condition prompted in part by the transportation system itself and in part by the unlimited opportunities of a newly developed community. The third pattern is that of a chronic shortage of currency paralleling that of the colonial situation in which Hancock operated. To solve the difficulties and make profit of the advantages presented by these patterns the family business and a plethora of partnerships and agencies were introduced.

Canal Trade

Before the completion of the Erie Canal, the central and western parts of New York State were sparsely settled and well forested. The first settlers had to be lumbermen before they could become farmers. In the last decade of the eighteenth and first years of the nineteenth

[1] W. T. Baxter, *The House of Hancock* (Cambridge,1945), *passim.*

century small sawmills were built throughout the area utilizing the power of numerous streams. Rough lumber along with wheat and salt were sent down the Susquehanna to market in Baltimore and other established towns and cities.[2] Lumber arks were the forerunners of rafts and canal boats. The first to make the passage down the Susquehanna was built in 1800. "They were like huge boxes, about 65 feet long, 16 feet wide, pointed at each end and sided up with two planks . . . ."[3] The completion of the canal system gave strong impetus to the trade in lumber and grain. The comparatively easy access to the markets of Albany and New York City was to change the locational pattern of commerce, and along this new route towns and then cities developed at strategic points. By 1840, Albany "had become one of the greatest lumber markets of the country."[4]

THE WILLIAMSES IN ITHACA

The insurgence into this area from the older population centers was marked. Timothy Shaler Williams along with his younger brothers, Josiah Butler and Manwell, was part of this migration. These men came in 1825, the very year in which the canal was opened. Timothy, the eldest, was twenty-five; he had taught school in Bristol, Connecticut, not far from his father's farm in Middletown. His financial resources when he moved to New York State must certainly have been unusual for that time and place, but it is difficult to determine just how much they were. Teaching school has never been considered a lucrative occupation. Judging by the statement of Chauncey Pratt Williams, one of his sons, the father could not have contributed a great deal to the venture. This son draws a picture of a hard-working farmer living in decent comfort but "never rich," a man who "learned the trade of a shoe-maker . . . working at his trade during the inclement season of the year, when his farm did not call for outdoor

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[2] H. P. Smith, *History of Broome County* (Syracuse, 1885), p. 72; J. Selkreg, *Landmarks of Tompkins County* (Syracuse, 1894), p. 101; N. A. McNall, *An Agricultural History of the Genesee Valley 1790-1860* (Univ. of Pennsylvania Press: Philadelphia, 1952), pp. 206-208.

[3] L. W. Murray, *A History of Old Tioga Point and Early Athens, Pennsylvania* (Athens, Penna., 1908), p. 521.

[4] Victor S. Clark, *History of Manufactures in the United States* (New York, 1929), p. 467.

work."[5] Aside from the small sum he might have saved from his teaching post, it would seem that Timothy had to borrow for his initial stake. There is some evidence to indicate that he did borrow from Sage and Russell, owners of the Plymouth Company in Connecticut,[6] by whom one brother, Jehiel E. Williams, was employed. Sage, and possibly Russell, was related to the Williams family.

The rapid extension of Timothy's undertakings in the first years would indicate that his resources were not modest. In 1825 he established a store at Enfield, New York, in which his brother, Josiah, clerked. The following year he built and operated a sawmill that was run by ox power.[7] He proceeded quickly all the while experimenting with the various modes of making an honest fortune. Within two years he removed to Ithaca to invest in the newest and most obvious enterprise of this area, transportation lines. Ithaca was admirably situated through its connection via Cayuga with the Erie Canal. The canal boats Timothy invested in at this time were to represent the core of his future varied enterprises. Upon them depended the general merchandise and the lumber businesses. At Ithaca Timothy loaded his boats with lumber and wheat and sent them off to Albany from which place they returned with nails, cotton goods, ribbon, and books to stock the shelves of his store at the Inlet. In 1829 Josiah, then nineteen, was sent to Albany to maintain effective control over a new branch of the business. By 1832, when Josiah's clamor to be made a full partner was answered, the initial stage of the business might be said to be done.

By that year those profit-making motives which may have prompted the move from Connecticut were on their way toward satisfaction. Having moved into a rich and unexploited region, the Williams brothers were eagerly making use of its resources. The white pine stands were ready to be turned into lumber and profit. The canal line, which undoubtedly helped determine the decision to settle in New York, provided the basis of their commercial success. The Williams brothers had gone West to grow up with the country.

Timothy echoed the keynote of the brothers' activities late in 1832 when he wrote Josiah, ". . . there is a large field open before us—and

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[5] M. E. Poole, *Williams Genealogy* (Ithaca, 1910), p. 3.

[6] Henry Shaler Williams Collection, Regional History, Cornell University, Sage and Russell to T. S. Williams, October 12, 1827.

[7] Selkreg, *op. cit.*, p. 352.

if we can control means enough to cultivate it, it will no doubt be the best business done in this place—."[8]

The brothers employed their resources and energies diffusely. In the period which this study covers, from 1825 through 1850, the Williamses were involved not only in the many aspects of canal transportation, owning, renting, operating the boats, both for their own goods and as carriers of others' goods, but even—in true entrepreneurial fashion—in designing better boats.[9] They were also engaged in an extensive merchandising business, both wholesale and retail. They had a heavy interest in all phases of the lumber trade from the purchase of timber lands to the manufacture of lumber and its shipment and sale. Also they sold not only their own lumber, but that of others on a commission basis. In 1836 Timothy became a director of the Tompkins County Bank and two years later he and Manwell and Josiah organized and became the sole stockholders of the Merchants and Farmers Bank in Ithaca, capitalized at $150,000—a significant commentary on the state of their enterprises even in this panic year. Their interests in real estate grew considerably in this period, and Josiah particularly invested in the coal mines of Pennsylvania. It was he who named the city of Scranton.[10] The brothers also helped finance certain local railroads.

This diversity of interests and diffusion of energies did not seem to trouble the brothers. Their business interests developed along the lines of community growth; they themselves were at once businessmen and city fathers. Moreover, the lumber and merchandise ventures had an intimate relation to the canal lines. Again, once they had become committed to a large mercantile enterprise, the need for pier property, storage space, and warehouses was apparent and made investment in this type of real estate necessary. Difficulties with currency and with time notes gave the brothers some insight into banking. There was then a kind of internal logic with regard to the ventures they undertook. One venture was conditioned by another, forming a nonspecialized investment pattern. But, undoubtedly, the more basic impulse to a varied extension of interests stemmed from the general, frenzied activity which seemed to promise that in

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[8] Josiah B. Williams Collection, Regional History, Cornell University, T. S. Williams to J. B. Williams, December 19, 1832.

[9] Selkreg, *op. cit.*, p. 126.

[10] Poole, *op. cit.*, p. 6.

this new region opened by the canal all avenues would pay well. Thus Timothy consulted with his brother, "Nichols advises us to buy out Leonard—thinks we can go it—somebody will have that property another year, and perhaps we had better have it than anyone else—"[11]

ORGANIZATION OF THE BUSINESS

The physical organization of the Williams' enterprises illustrates again their nonspecialized nature. At the outset Timothy was the sole legal head of the various enterprises. He collected agricultural commodities at the Ithaca headquarters. These were sent on to Albany where they were either sold or reshipped to New York or to consignees in the eastern portion of the state. By 1829, only two years after establishing themselves in Ithaca, the brothers opened their own office and warehouse in Albany, with Josiah in charge. Thus they saved the commissions charged by the outside agents and could themselves become commission agents for outside shippers. In 1837 another brother, C. P. Williams, was recruited from the Connecticut homestead to take over the lumber and shipping interests in Albany while Josiah returned to Ithaca and became involved in banking. C. P. eventually bought out his brothers' interest in the Albany venture in partnership with a nephew of the Williamses, Henry W. Sage, who helped with a branch office in New York City. In 1843 a further step was made in the development of these transportation and mercantile organizations. T. S. Williams and Co. was organized to operate in Ithaca, C. P. Williams and Co. to operate in Albany, and H. W. Sage and Co. to operate in New York City. The partnership extended only to the equal division of profits and losses.[12] The actual functioning of

[11] J. B. Williams Collection, T. S. Williams to J. B. Williams, December 19, 1832.

[12] *Ibid.*, April 8, 1843—"We agree to enter into the storage transportation, commission and lumber and produce business as follows: T. S. Williams to take charge at Ithaca—C. P. Williams at Albany and H. W. Sage at New York—The firm at Ithaca to be T. S. Williams—in Albany C. P. Williams & Co. and in New York, H. W. Sage & Co. H. W. Sage and C. P. Williams to put in what lumber and shingles they have at Ithaca—their boating stock and houses to be used in the business, and are to be allowed out of the business a reasonable compensation for what they have in use in the business in proportion, more than the said Williams— . . . The profits or losses of the business to be equally divided after paying expenses, rents, etc. in doing the business—to commence on the opening of the canal—"

the three organizations was completely separate. The accounts of one firm appeared on the books of the other two and each acted as the agent of the others to form a continuous service following the line of transportation. Yet each was essentially an independent merchant and shipper handling other accounts, charging commissions on transactions for the affiliate firms, and using outside agents. Thus after the organization of H. W. Sage and Co. in New York City, T. S. Williams and Co. continued to make use of several other agents, John Johnson and Sons and Abbey and Freeman, in the same city, to distribute approximately the same commodities that Sage handled. The agreement between the three organizations read that they enter together "into the storage transportation, commission and lumber and produce business . . . ."[13] There was, however, no breakdown of these interests. Each firm duplicated all of the interests of the others so that again the pattern of expansion that emerges is not in the direction of a more extensive single unit but rather of more units.

The independence of these firms with regard to one another is illustrated further by the short-term character of the agreements. The 1843 arrangement was discontinued in 1845. Sage and C. P. continued as partners in the Albany and New York establishments, but T. S. withdrew. More and more absorbed by his banking and political interests, T. S. now showed a disinclination to pursue mercantile ventures if his personal services were required. When, in 1847, a contract was drawn up which provided for a new partnership—to last just one year—T. S. and J. B. acted merely as investors and advisors. Together they contributed $12,500; an equal sum was advanced by Sage, and C. P. added $5,000.[14] A fourth partner, who contributed no capital but who was to manage the Albany branch in the name of C. P. Williams and Co., was included; he was Charles E. Hardy, the brother-in-law of J. B. Williams. Sage was to take over the Ithaca business "with such advice and assistance as T. S. and J. B. Williams can give. . . ."[15] The New York branch was discontinued. Upon the expiration of this arrangement in 1848, H. W. Sage and Co. continued to operate as an Ithaca firm in association with C. P. Williams and Co. C. P. himself took less direct interest in the Albany mercantile concern, and in 1852 the Sage partnership with C. P. was

[13] *Idem.*

[14] Henry Shaler Williams Collection, Contract, Ithaca, February 16, 1847.

[15] *Idem.*

ORGANIZATION OF THE WILLIAMS SHIPPING AND MERCHANDISE ENTERPRISES

Ithaca	*Albany*	*New York City*
T. S. Williams, 1827	Branch established with J. B. in charge, 1829	
T. S. Williams and Brothers, 1832 Renewed 1836 Included T. S., J. B., M. R.	C. P. Williams takes over branch, 1837 Later buys out Williams and Brothers in partnership with H. W. Sage	
Williams and Company, 1842 Reorganization upon M. R.'s death		C. P. Williams and H. W. Sage establish branch under name of H. W. Sage and Co. between 1838 and 1843
T. S. Williams and Co., 1843 J. B. not a partner in this venture.	C. P. Williams and Co., 1843	H. W. Sage and Co., 1843
T. S. Williams and Co., 1846 J. E. Shaw, partner	C. P. Williams and Co., 1846	H. W. Sage and Co., 1846
H. W. Sage and Co., 1847 T. S. and J. B. Williams, silent partners	C. P. Williams and Co., 1847 C. E. Hardy, managing partner	
H. W. Sage and Co., 1848-1852	C. P. Williams and Co., 1848-1852	
H. W. Sage and Co., 1852 +	C. P. Williams and Co., 1852 +	
J. E. Shaw and Co. 1850 +		

terminated. The mercantile interests of T. S. and J. B. Williams in Ithaca came to be directed in the late 'forties largely by one J. E. Shaw, who was made a partner in T. S. Williams and Co. probably about 1845.

These firms, connected by brief legal agreements and even more intimately by family ties, had helped overcome the difficulties of the long transportation line and the distance to markets. They helped somewhat in coordinating multiple business ventures. But even family connections, where, as with the Williamses, there seemed to be brothers enough to go around and nephews who could be called upon, were not adequate when so many interests had to be directed. Therefore, throughout the period, there is a regular record of other partnerships and of agencies whose permanence was variable. For example, Timothy made an arrangement with Charles Robinson by which the former supplied the capital for Robinson's activities as a collector of lumber and other country produce for Timothy. With regard to this Timothy wrote Josiah in 1832 that ". . . Robinson will probably want some help in some way to pay up his bills in New York—don't know how much he owes there—will give a sketch of what we have let him have toward this year's stuff—"[16] There was not then a definite outlay made, but rather a kind of underwriting of Robinson's activities. Here Robinson seems to have acted as an agent of the Williamses, probably on a commission basis.

A typical contract was made with B. R. Delevan in 1833 with the provision that Delevan purchase lumber and shingles in the vicinity of Ithaca to be sold by J. B. in Albany. Neither party would charge for his services. Both were to take part in the capital outlay and charge interest to the business. Profits and losses were to be shared equally between Williams Brothers and Delevan, and the merchandise was to be shipped over Williams Brothers' lines at the customary rates. The arrangement was to last through the season of navigation.[17] A later contract with Robinson, which ran for an unusually long period, 1836 through 1838, provided a similar arrangement.[18] In this case we have an estimate of the profits made by the partnership venture, $2,886.76,[19] which would perhaps indicate the petty character

[16] J. B. Williams Collection, T. S. Williams to J. B. Williams, November 1, 1832.

[17] Henry Shaler Williams Collection, Contract, October 20, 1833.

[18] J. B. Williams Collection, Contract, January 1, 1838.

[19] *Idem.*

of these numerous ventures. The Williamses used this system of buying and selling on joint account widely. It was a device by which scarce capital could be effectively pooled, and by which specialization of function between collector and distributor might be easily achieved where the distance between buyer and seller created a real problem.

In 1838 Robinson joined Sage and Joseph E. Shaw who had bought the Williams' Inlet store and the Ithaca-New York canal line of the Williamses the year before. The Williams' decision to sell was undoubtedly dictated by their reorganization in 1837 to include banking. From 1838 banking and mercantile operations were both carried on in a new building, probably nearer the center of town, although T. S. retained another stand or store at the Inlet. Sage, Shaw, and Robinson developed an enterprise parallel to the Williams'. If one judges by accounts due them,[20] they had a general store in which they sold such miscellaneous items as buttons, sugar, cotton goods, and oil. They were engaged also in buying lumber, injudiciously at times, according to C. P. Williams: "It *will not do* to pay the prices for property which they have been paying. They are calculating on too strong an advance—"[21] It is significant that this complaint was sent not to Sage, Shaw, and Robinson, but to Sage's uncles, the Williams Brothers in Ithaca. As the financiers of Sage,[22] and probably of Robinson and of Shaw, these men had a stake in the development of the new business. C. P. too had a significant interest in the activities of "our folks." Sage, Shaw, and Robinson gathered lumber at Ithaca very much as the Williamses did and marketed it through C. P. in Albany, drawing upon him to pay for the timber. Some friction developed when C. P., naturally pessimistic, had to deal with the ambitious younger firm. There was a continual cry that "our folks (S S & R) have been going too fast for my benefit. . . ."[23] Because C. P. could draw on the resources of Williams Brothers should he fall into difficulties, Sage, Shaw and Robinson, for whom C. P. was more than just an agent since Sage was affiliated with him in the Albany business, had in turn another link with Williams Brothers. The family ties worked again to encourage investment by Williams Brothers in a rival, a parallel

[20] *Ibid.*, *passim*—e.g., bill of James Nichols for 1837, 1838.

[21] *Ibid.*, C. P. Williams to Williams Brothers, March 28, 1839.

[22] *Ibid.*, Will of Manwell Williams, May 16, 1840, mentions loan to H. W. Sage of $1,000.

[23] *Ibid.*, C. P. Williams to Williams Brothers, August 21, 1839.

firm, demonstrating once more the multiple pattern of expansion.

In 1842 Timothy joined Joseph E. Shaw and one E. T. Turner in establishing a retail store at Ithaca.[24] The partnership was limited to three years during which Timothy was not expected to contribute "personal services," but he did provide "the use of the store." It was a form of investment for Timothy. His own store at the Inlet evidently directed considerable business to the new enterprise. During the few years of the partnership the Inlet store itself ran up a debt to the new store of more than a thousand dollars. Here was another case of investment in a parallel organization, an early kind of chain-store principle, expansion providing more of the same kind of institution, although all were not under identical control.

A number of the same names appear and reappear in the lists of transactions. Thus Sage, Robinson, and Shaw pop up in many and different relations among themselves and with the various Williams brothers. For example, in 1846 Timothy built a grist mill. Subsequently it became the property of Sage and Shaw.[25] Again, in a list of suits[26] brought in 1854, one finds J. E. Shaw listed as acting "for Williams and Co." and as "survivor of Williams and Co.," leading one to suspect that Shaw bought out T. S. Williams and Co. at Timothy's death. The same list reveals J. E. Shaw, H. W. Sage, and J. B. Williams acting as a group against a creditor. In 1852, J. B. Williams and Shaw are revealed as joint owners of real estate.[27]

All these men, Sage, Robinson, Shaw, C. P. Williams, even J. B. and Manwell Williams, seem to have drawn their initial resourcés from T. S. Williams and to have retained an intimate tie with his enterprises through the 'forties. Nevertheless, we have seen that the pattern which emerged in the 'forties involved the independence of each of the various enterprises in which Timothy had had a hand. A greater specialization took place in the pursuits of the individuals concerned. By 1843 J. B. had withdrawn from the management of the original transportation and merchandise business and was engaged primarily in banking, although all his business interests retained a catholic vigor. Eventually C. P. was to devote himself to banking in Albany. Sage developed the mercantile business in Ithaca, moved

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[24] *Ibid.*, Memorandum, February 1, 1842.

[25] Selkreg, *op. cit.*, p. 176.

[26] J. B. Williams Collection, 1854.

[27] *Ibid.*, October 18, 1852.

to New York in 1857, and still later opened an additional yard in Albany, all the while placing more and more emphasis on the lumber trade. Having an interest in every aspect of the lumber industry, he was to become, in time, one of the great lumber barons. With the development of the market, the growth of capital resources, and the development of organization within each branch of commerce, industry, and banking, the primary business pursuit of any one individual tended to be less diverse, more intensive and specialized. Thus Timothy's function seems to have been to build up in an undeveloped area many and varied enterprises, the whole structure being supported in these early years, when the market was just developing, by reason of its multiplicity and variety and by the development of a pool of capital at Ithaca. The link that held all of these men together in the 'forties was the financial underwriting of their enterprises by the Williamses. While in the early 'thirties the Ithaca firm had drawn upon Albany to pay for lumber and wheat purchases, in the 'forties, with the expansion of the lumber markets in Albany and New York, with the chronic financial panics, and with the establishment of the Williams' bank at Ithaca, it was Albany that drew upon Ithaca at crucial moments.

CURRENCY AND FINANCE

Short-term partnerships, multiple partnerships, and venture partnerships seem to have provided an adequate supply of capital; witness the readiness with which canal boats were purchased, stores opened, and warehouses and mills built. But the available stock of actual coin was always very low. This persistent problem of obtaining ready cash is the third most obvious characteristic of the commercial pattern of the Williams' enterprises. It helps in part to describe the organization that developed, the branch partnerships and the affiliated partnerships. Bills of exchange, time notes, and book credit were passed among them so as to maintain a regular and fluid supply of working capital in lieu of cash. The pattern of multiple enterprises entered here, too, in expanding working resources. Thus, when Timothy delivered a load of lumber at Albany, he accepted in return not only cash but also fish or manufactured goods or iron. This was not a case of barter, of course. Josiah or C. P. in Albany sold lumber or wheat for bills of exchange, some of which were rediscounted at the bank for notes with which to buy a return cargo. Bills of exchange were commonly used as were less formal time notes. The accounts of Williams Brothers record notes and drafts and the interest on these, indicating

that they often retained possession of the notes until maturity, thus taking on a banking function by themselves extending credit. The brothers in turn bought supplies by giving their own notes for them.

A letter to Josiah from one of his customers illustrates the general pattern:[28]

> . . . if you will sell me all of this kind of shingle above stated at 4 months at 18/—and take my Note at six months by adding 2 months Interest on the Note which leaves it at 4 months . . . [this would] enable me to turn myself about as I have to trust my lumber to one and another and 4 months will not quite give me time enough or as much as I should wish.

All the way down the line credit, or time to turn produce into money, had to be extended. Where credit was desired for a longer period than usual, interest was applied to the note.

Funds to purchase lumber and wheat had in the early years to be drawn from Albany where they were sold. Thus Timothy wrote his brother from Ithaca, "We have drawn on you at Sundry times at Short Sight. . . . we shall try and get along without drawing for any more at present unless we draw at 90 days—we are pretty dry for funds and shall have to raise Some for tolls—"[29] Tolls and charges and to a large extent the lumber and wheat of the surrounding country had to be paid for in cash. There are bundles of receipts in the Williams' papers made out like the following: "Rec'd of T. S. Williams eighteen dollars for which I have delivered to the Rail Road in Candor Eighteen bunches of Shingles to be sent by the Cars to Ithaca—John A. Chielsey" and "Rec'd Oct. 2d 1843 of T. S. Williams One hundred Dollars on my crop of wheat which I am to deliver by Thursday of next week at Mr. Durands Store house—J. C. Hull."[30] Timothy bought his raw produce directly from the farmer as well as through an agent like Robinson.

Not in all cases was he obliged to pay cash. Where there was a large sum involved, Timothy might offer to pay when the money was realized by sale in Albany, the purchase price drawing interest in the meantime.[31] The point again was to obtain time or credit in the face of the shortage of cash.

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[28] *Ibid.*, Isaac Woolley to J. B. Williams, September 19, 1832.

[29] *Ibid.*, T. S. Williams to J. B. Williams, June 18, 1832.

[30] *Ibid.*, 1843.

[31] *Ibid.*, "Rec'd of T. S. Williams Eight-Hundred Dollars in advance on Potashes, now in Store at Albany with C. P. Williams & Co. Said money to be on interest until realized from Sales of Said Ashes—Justus Slater," November 8, 1843.

With business done so largely by the acceptance of notes for future payment, the reputation of the firm was of decided importance. With no Dun and Bradstreet it was possible to determine the reliability of an individual or a company only by "asking around." Thus C. P. reported to Ithaca, "I have from a source in which I should place confidence that Weeds and Thurman are responsible men—that Weeds is one of the principal capitalists in Troy. They are doing a wholesale grocery business in connection with Lumber."[32]

While the shortage of currency was a chronic condition, it grew more and more intense in the years after the Panic of 1837. A particularly severe period was September, October, and November of 1839. In June of that year C. P. was optimistic about the prospects for the season: "I have now paper and accounts which in all probability will be promptly met about $13,500—mostly due before 1st Aug. Lumber sells about as fast as I can get it."[33] But by August 21 business had taken a decided turn for the worse. The sales of lumber decreased so that C. P. complained that he had no paper which he could discount to pay his own outstanding notes.[34] A month later sales had fallen off still more. As C. P. described the situation: "Nobody wants lumber and everybody wants money."[35] He advised that Sage, Shaw, and Robinson concentrate as far as possible on operating their canal boats for others' shipping, while they themselves ought not to purchase lumber. In October, C. P. explained "I cant turn anything into money—if I do it is at a ruinous rate—."[36] And a few days later, C. P. had come to the end of his patience. "To look at things cooly without being excited by them it looks as though we were going to ruin."[37] The banks were refusing to accept even New England bank notes except at a discount of some 2 to 3 per cent. Since 1837 there had been a general sense of insecurity with regard to the value of the currency of the country. It[38]

> consisted of a small amount of gold and silver; a large amount of state chartered bank notes, convertible; a far larger amount of bank notes inconvertible; notes of private non-specie paying banks; unauthorized notes of

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[32] *Ibid.*, C. P. Williams to Williams Brothers, May 7, 1839.
[33] *Ibid.*, C. P. Williams to Williams Brothers, June 1, 1839.
[34] *Ibid.*, C. P. Williams to Williams Brothers, August 21, 1839.
[35] *Ibid.*, C. P. Williams to Williams Brothers, September 26, 1839.
[36] *Ibid.*, C. P. Williams to Williams Brothers, October 16, 1839.
[37] *Ibid.*, C. P. Williams to Williams Brothers, October 24, 1839.
[38] O. C. Lightner, *The History of Business Depressions* (New York, 1922), p. 137.

companies . . . and a conglomeration of post notes, deposit notes, checks, states scrip and bills of exchange; all circulated for money.

Consciousness of the degrees of reliability of these forms of money seems to have persisted through the next decade, and sensitivity to that reliability wrought havoc with the business community. Thus while the banks at this time would accept Connecticut money at a 2 per cent discount, Rhode Island money bore a discount of from 8 to 12 per cent and western banks' money would not be accepted at all, the few exceptions bearing a 5 per cent discount.[39] Therefore, when C. P. tried to look at the situation cooly and without excitement he saw only "ruin" ahead.

C. P. was inclined to undue pessimism, however, for with all his protests of ruin he added in this very letter: "I am really afraid to extend our business; it is probable, however, that I shall be able to turn more good shingles into money previous to close of navigation . . . ."[40] And by November 14 the worst effects of the panic in the money market seem to have been ended and lumber was again selling well.[41] In summing up his financial status C. P. announced, "I think all accounts I have standing out and all notes I hold will be paid—perhaps not all at maturity—but I see no prospect . . . of losing a dollar by any bad debts. . . ."[42] The flurry was over for the moment, but all during this period money was at a premium. For example, the inventory of Williams and Co. in 1843 revealed that it had on hand some $17,539.84 worth of merchandise and lumber, $31,957.25 in notes, but only $278.47 in cash.[43] Given this kind of situation, should rumor or fact suggest the unreliability of the circulating media or some part of it, ordinary business was ignored while men tried to convert their assets into specie or whatever else was at that point accepted as sound money.

The frequency with which these panics occurred and their short-lived nature would indicate both a basic instability in the monetary system and an even more basic and persistent development and expansion of the natural resources of the area. In 1842, C. P. Williams

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[39] J. B. Williams Collection, C. P. Williams to Williams Brothers, October 24' 1839.

[40] *Idem.*

[41] *Ibid.*, C. P. Williams to Williams Brothers, November 14, 1839.

[42] *Ibid.*, C. P. Williams to Williams Brothers, November 22, 1839.

[43] *Ibid.*, Inventory, 1843.

was again feeling the effect of panic conditions. The situation at this time was far more serious and far more general. Judging from the figures compiled by D. R. Dewey the significant effects of the Panic of 1837 were not felt until 1842. In the five years from 1837 to 1842 circulation was curtailed from $149,000,000 to $83,000,000.[44]

The effect on the Albany branch was particularly disconcerting. Produce piled up in Albany with no possibility of sale. C. P. explained that it was "*utterly improfitable* to raise money enough out of it to pay one tenth of the chgs." He described his difficulties as follows:[45]

> I have received within a week 2341 Bu[nches] shingles and have more on the way. All I have sold is some 200 Bu. . . . I have had crowded in upon me 840,000 ft Lumber in addition to last years stock and have not sold a *stick* in the last two weeks.
>
> I have . . . been warning our country customers of the danger, and they . . . have thought I wanted to scare them and have kept on—The only way of making them believe it is to refuse to accept their drafts. . . .

The country producer then was anxious to get his products into the hands of the merchant so that he might draw upon him for money. Yet the merchant could not sell because no one was willing to give money for produce. Money, or the sound forms of it, had become valuable in itself.

By October and November, 1842, C. P. Williams and his partner H. W. Sage were in serious trouble. They had bought far more than they could sell. At the close of navigation they had to retain for the following year, "1,500,000 feet Lumber and 4 to 5.000 Bu shingles."[46] Moreover they had lost some "$20,000 in bad debts and losses on property."[47] What saved them undoubtedly was their affiliation with Williams and Co. at Ithaca.

Williams and Co. itself had felt the effects of the tight currency situation. The shortage of small coins, particularly, must have been severe. In 1841, Williams and Co. was making out notes which entitled the bearer to a certain amount of money "in goods at Retail" or to "½ Gallon lamp oil."[48] The sums involved were small, 61 cents

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[44] D. R. Dewey, *Financial History of the United States* (New York, 1903), p. 233.

[45] Williams Collection, C. P. Williams to Williams Brothers, May 7, 1842.

[46] *Ibid.*, C. P. Williams to Williams Brothers, November 12, 1842.

[47] *Idem.*

[48] Williams Collection, *passim*, 1841.

or $1.00 or 50 cents. It was a somewhat sophisticated barter transaction. The bearer notes were made out to "Messrs Culver Halsey & Co." with whom Williams and Co. had an account. Thus all the 50-cent and $1.00 transactions would be added to that account which did not have to be paid immediately and might eventually be paid by note or draft, thus extending credit and reducing the transactions in currency. One of these notes suggests an interesting point. As late as 1841, evidently, the New York merchant still dealt at times in terms of shillings.[49]

Early in 1842, Williams and Co. was hearing from its New York agents that "money has become So extremely Scarce that it has been almost impossible to sell produce and when sold to good men extremely difficult to collect . . . ."[50] And there is again a suggestion of the need to resort to barter: "We have not been able to find a market for your Binders Boards. . . . They [bookmakers] will not buy them unless we will take Books in pay."[51] Yet Williams and Co. was able to ride out the panic years successfully and to aid C. P. and Sage. Undoubtedly this was true because of the superior resources of Williams and Co. One unusual factor was the control of the Merchants and Farmers Bank by the Williams brothers.

H. W. Sage and Co.'s assets as of February 1, 1843, were $26,239.27, including book accounts, notes, judgments, lumber, shingles, salt, fixtures, boats, and horses. Against this stood liabilities amounting to $19,447.49, leaving the net worth at $6,791.78. Sage's partner, C. P. Williams and Co., had assets to the amount of $16,760.50 and liabilities to the amount of $14,602.64. The net worth here was only $2,157.86.[52]

It is impossible, on the basis of the available information, to determine the assets of Williams and Co. in this year. The Williams' books which are available make no attempt to strike a balance. There are notations of individual accounts; some list receipts in chronological order. But for most of the period there is little to go on but the knowledge that the Williams brothers were continually expanding their interests and continually investing in new enterprises. The fact that C. P. and Sage did make an accounting in 1843 may indicate the

[49] *Ibid.*, December 23 1841.
[50] *Ibid.*, John Johnson's Son to Williams and Co., January 28, 1842.
[51] *Idem.*
[52] *Ibid.*, February 1, 1843.

serious state of their affairs. It may, however, merely have been preparatory to the reorganization in 1843. Certainly that reorganization seems to have meant a moderate success to the three branches.

According to one estimate made in 1848 each of the three concerns should have netted some $8,111.33[53] for the business done at the Inlet in 1843 and 1844. This estimate demonstrates again the persistent link that financial underwriting provided among these organizations. Two years later and two reorganizations later the profits had not been distributed but were still invested in the expanding business. When in 1848 T. S. Williams determined to withdraw as a partner, his capital remained with Sage and C. P. Williams on interest, invested in their activities. In all the financial turmoil, the Williams' stability maintained the mercantile and industrial firms dependent upon it so that all the members of all the firms retained their respectability and eventually gained a competency.

An inventory of Williams Brothers assets drawn up in April, 1849, indicated that Williams and Co. was valued at $18,946.49.[54] To this must be added interests in the Ithaca cotton mills, in railroad stock, in the Merchants and Farmers Bank, in real estate and "in wheat purchases at Milwaukee and Pork at Chicago," the whole amounting to $93,346.30.[55] The change in emphasis in the Williams brothers' enterprises is clearly indicated by this inventory. The largest single item, $40,000, represented bank capital. Less than $35,000 was invested in mercantile ventures. The remainder represented railroad stock, real estate, and mill profits. What had begun as a mercantile venture in 1825, had by 1849 expanded to a considerable degree into finance and industry. Mercantile interests were not dismissed, however, and the profits of all these varied enterprises were to aid, by continuous investment in them, the expansion of mercantile firms like those of J. E. Shaw, C. P. Williams and Co., and H. W. Sage and Co.

THE CONDUCT OF BUSINESS

In the conduct of business there were persistent problems other than those involved with the currency situation. Most of these resulted from the distance from markets and the peculiar attributes of

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[53] *Ibid.*, April 13, 1848.
[54] *Ibid.*, April 1, 1849.
[55] *Idem.*

canal transportation. At times, for instance, business came to a complete standstill at Albany because of a break in the canal.[56] Furthermore, before 1850 there were few organized systems of lumber yards to handle the cargoes brought to Albany.[57] Consequently lumber was either sold from the boats directly[58] or piled up on the piers at Albany or New York. The piers were not adequately built, and trouble resulted when they and the lumber were flooded with water. In 1832, the man left in charge of the Albany office when navigation closed for the winter wrote to Ithaca that "We did expect trouble from the See [*sic*] but I think we are out of danger [.] it Broke up at Troy and Lodged about a mile above Bath [.] the water was at the top of the pier [.]"[59] Leaky boats and open boats resulted in damage to goods and, when business was good, the number of boats in the canal delayed transportation.

Again the length of the transportation line and the poor quality of communications meant that there was danger always of either under- or overstocking the markets drastically. In line with this, one of the Williams' agents in New York urged that "Butter sells steadily owing to the small quantity arriving [.] if you have any butter on hand you intend for this market loose [*sic*] no time in forwarding it."[60] Poor communications resulted also in disappointments at Ithaca: "The Mariah has just arrived without a Brl of fish or anything else, whereby we were much disappointed—we had borrowed Some fish to get along and expected to get them to repay."[61]

The opening of the canal dictated the opening of commerce. From March through the end of November the canal was navigable and trade was carried on. During the winter months the Albany office earned somewhat by its storage facilities. But by July the "Storage business is about over with till fall."[62] The dealers came up from New York to the Albany market in the spring. Market prices were variable and it seems to have been difficult to be able to determine

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[56] *Ibid.*, C. P. Williams to J. B. Williams, May 9, 1839.

[57] Defebaugh, *History of the Lumber Industry of America* (Chicago, 1907), vol. ii, p. 326.

[58] J. B. Williams Collection, Receipt of S. Besteder to T. S. Williams, September 15, 1842.

[59] *Ibid.*, Henry Salsbury to J. B. Williams, January 24, 1832.

[60] *Ibid.*, Abbey and Freeman to Williams and Co., September 14, 1842.

[61] *Ibid.*, T. S. Williams to J. B. Williams, July 16, 1832.

[62] *Ibid.*, July 20, 1832.

prices or price trends, especially early in the season. Thus C. P. wrote to Ithaca: "The market will not be sustained as high as the sale you made to him. Our dealers [i.e., in Albany] are selling considerably less $13 to $13½ for about the same quality."[63] The lack of adequate communications facilities meant that market conditions were the constant interest of lumber producers at any distance from the market, and the Williams brothers were asked to quote not only their own but their neighbors' prices.[64]

The variability from one city market to the next was remarked often. One of the factors determining which was the best market to sell in was that of inspection practices. One firm wrote Josiah, "from what little we know about the difference of inspection between the N. York & Albany Markets judging from our sales this year in the two markets we shall probably send you all our lumber next season to sell . . . ."[65] Lumber was divided into approximately four categories, select, good, common, and culls, each, of course, bringing a different price. The inspectors, hired by the lumber merchants, soon acquired a reputation for thoroughness or leniency. Josiah was told, ". . . there is one of your Albany inspectors that we shall object to your employing to inspect any lumber that we Send you . . . . we never want him to lay his rule acrop a board of ours."[66] Lumber was not only inspected but also branded with the special mark of the owner. Apparently certain brands were more highly valued than others, the Williams' among those. Thus Timothy wrote that, "Smith seems to have an idea that he cannot get along without our Branded Shingles & is willing to give us our price at Albany. . . . "[67]

BUSINESSMEN AND CITY FATHERS

Despite all the difficulties inherent in the business conditions of their day, the Williams brothers made an undeniable success. They were the prototype of the capitalists of their era. All the optimistic clichés of the nineteenth century apply to them. Theirs was the rags-to-riches story, the fulfillment of the Idea of Progress. And when they

[63] *Ibid.*, March 27, 1839.
[64] *Ibid.*, (?) to J. B. Williams, October 6, 1842.
[65] *Ibid.*, M. Sturus and Co. to J. B. Williams, October 26, 1835.
[66] *Ibid.*, M. Sturus and Co. to J. B. Williams, October 17, 1835.
[67] *Ibid.*, T. S. Williams to J. B. Williams, July 7, 1832.

made their fortunes, their social consciousness tended in the direction of Carnegie's Gospel.

Undoubtedly basic to their success was the fact that they undertook new and needed projects. Yet all of their contemporaries who migrated with them to take advantage of the rich country opened up by the Erie Canal were not equally successful. The reasons for the Williams' success are interesting to pursue. One must have been the character of the men, the way in which they conducted themselves and their business interests. It was characteristic of all the brothers to proceed very cautiously. C. P. continually urged moderation on his nephew, Sage. Again they were men who took very seriously Ben Franklin's advice with regard to taking care of the pennies. A great volume of their business was done in small sums and minor charges; they became penny-wise. When Sage came to work for them, he wrote trom New York inquiring as to the advisability of pursuing a transaction which would require the outlay of $5.00. Yet this caution did not keep the brothers from expanding shrewdly and steadily. They learned very quickly. Timothy, the school teacher, who wrote, "don't mention to anyone what the flour is sold at—[$7.50]—if others get $8 they will laugh at me,"[68] nevertheless built up a substantial business, was president of the village of Ithaca in 1844, 1845, and 1846, and State Senator in 1848 and 1849. His dignity was well assured. His provinciality—in 1832 he found New York "dull music"[69] and 15 years later he was anxious to call off a business trip to Detroit because he was homesick[70]—did not keep him from integrating canal lines, sawmills, bank directories, and retail stores.

Josiah was the most ambitious of the brothers. He determined early to gain a full partnership in Timothy's business to protect himself in case of his brother's death. He wrote Manwell:[71]

> My object is to manage so as to have yours and my share safe [.] it is now situated so that in case of his death we should have to take up with common wages for our services and the ballence [*sic*] would go to his heirs. . . . I feel rather afraid . . . [that] if Sage & Russel have got any way that they can make out a partnership . . . they would shove us out of our rights. . . .

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[68] *Ibid.*, T. S. Williams to J. B. Williams, undated.

[69] *Ibid.*, December 5, 1832.

[70] *Ibid.*, T. S. Williams to J. B. Williams, July 29, 1847.

[71] *Ibid.*, J. B. Williams to M. Williams, undated but approximately 1830.

The language is perfectly clear and the sentiment within understanding. Just as Timothy feared the laughter, so Josiah feared the conflicting ambitions of competitors. In this region of opportunities a man had to protect his title to exploit them. Josiah studied both law and banking in order to prepare himself better for his work. His political career was more extensive than that of his brother.

And in their political careers as in their business careers, both men promoted what were in that era compatible principles: their own economic welfare and the development of the community. In 1836 Josiah wrote from Albany:[72]

> Since T. S left I have been at work at the Senate and we have *passed* the *Sodus Canal Bill*. . . . This for Ithaca is a project worth all the rest put together and will no doubt make a difference in the value of real estate of 100 prct in a short time—it will afford a very great opportunity for speculation in real estate at Sodus Bay and at Montezuma or the place where it intersects the Erie Canal and would time and funds admit I should like to look into it. . . .

The Sodus Canal was undoubtedly valuable to the whole community. Speculation in real estate would prove valuable to the Williamses. Perhaps at no other time could private and community interests be so well identified.

Their community feeling could also be completely divorced from their business interests and was so very often. One of Josiah's pet organizations was the "Waterman's Association," which he helped to organize in 1839.[73] Its purpose was the establishment and maintenance of a reading room and library for the boatmen of Ithaca. The Williams brothers donated a house for Reading and Lecture Rooms and among the subscribers were all of the Williams' connections, including Sage, Shaw, and Robinson, and Ezra Cornell. The brothers also ran a Sunday School for the children of the boatmen.[74] Their concern in these directions is reminiscent of Carnegie's libraries. The attempt was to provide "moral, scientific and useful knowledge,"[75] the tools which the capable might use to make their own way.

Success then was aided by a caution that was not allowed to stand in the way of expansion. It came through exercising the wisdom of

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[72] *Ibid.*, J. B. Williams to Williams Brothers, April 23, 1836.

[73] *Ibid.*, March 18, 1839.

[74] Poole, *op. cit.*, p. 4.

[75] J. B. Williams Collection, March 18, 1839

caution and expansion in a rich new area and through the identification of the interests of the business with those of the community. Yet there was undoubtedly more to it than that. There is some evidence that the Williamses were concerned with the entrepreneur's function as an innovator or utilizer of innovations. Josiah concerned himself with canal construction and the designing of canal boats with the construction of railroads, and, like Ezra Cornell, with the construction of telegraph lines. He was also the possessor of patents for a sawmill, a sawmill dog and an improvement for a sawmill dog.[76]

In 1849, when Timothy Shaler Williams died, Williams Brothers could no longer be considered primarily a mercantile concern. T. S Williams and Co. passed into the hands of Shaw although J. B. Williams seems to have retained an investor's interest. What Mr. Gras speaks of as the "chronic tendency of mercantile families to dry up"[77] was occurring in the Williams' organization. Since it had been a successful working unit, the funds initially derived from it were directed into new and more specialized channels like banking and the intensive exploitation of the lumber industry. The original organization had performed a valuable service in the development of the area.

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[76] *Ibid.*, Folder No. 193C.

[77] N. S. B. Gras, *Business and Capitalism* (New York, 1946), p. 162.

AN EIGHTEENTH-CENTURY GERMAN GUIDE FOR INVESTORS

The Kress Room of Baker Library recently acquired the Latin and German editions of a book which must be considered one of the first, if not *the* first, guide for investors published in Germany. According to the custom of the times, the titles are cumbersome indeed. The earlier Latin edition's title reads: *Commentatio juris praesertim Germanici tam consonantis quam dissonantis de pecunia mutuaticia tuto collocanda. An wen, wie, und wo die Capitalien am sichersten auszulehnen* (Goettingae, 1761); while the German edition is entitled *Der Kluge Capitalist, oder politisch redlicher Unterricht, wie Gelder am sichersten zu benutzen und anzulegen* (Nürnberg, 1766; 2d ed., 1786).[1]

The author of this paper, aware of their existence, tried repeatedly, after the end of the recent war, to locate the books. When, with the help of German friends, he had just succeeded in tracking down a copy of the Latin edition in the famous old Herzog August Bibliothek in Wolfenbüttel, another copy of this edition came into the possession of Baker Library through the acquisition of the Wallich collection. So far the German edition has not been discovered by the author anywhere in Germany, although it is certain to exist; but, since the collapse, library conditions are still rather confused over there. However, a short time ago the author discovered the item in a secondhand bookdealer's catalog and it was secured.

I

The first question which poses itself is: Who wrote the guide? Its author was Johann Friedrich Kobe (1737-1771).[2] Kobe was born in

[1] Translated into English, the Latin and German titles read, respectively: "Juridical Comment on the Similarities and Dissimilarities of the Present German Law on Capital Investment. To Whom, How, and Where to Invest Capital Safely"; and, "The Clever Capitalist or Politically Equitable Information on How to Use and Invest Funds in the Most Secure Way."

[2] The biographical data which follow were taken from Jöcher's *Allgemeines Gelehrten-Lexikon*, Fortsetzung, vol. iii (Delmenhorst, 1810), col. 586. I owe this reference to Dr. Fritz Meyen, Librarian, Braunschweig Institute of Technology, Braunschweig, Germany, whose assistance has been appreciated.

Coburg, a pleasant little town in Thuringia, dominated by the castle of the House of Coburg which at present, under the name of Windsor, occupies the British throne. Young Kobe studied at Göttingen where he acquired an LL.D. in 1760; a record of his disputation has also found its way into the Kress Room.[3] In 1761 he published the Latin edition of his book, previously mentioned, which fifty years later was still considered an important one; it was followed by a number of papers. In the meantime Kobe had become a judge, adorned with the beautiful Latin title of *Comes Caesareus Palatinus*, and an official of the tiny Thuringian principality of Hildburghausen. In short, Kobe was a well-trained and highly educated jurist with an interest in history, as is manifested in some of his papers. As a matter of fact, his profession determined the character of his book.

The second preliminary question which must be asked is: Why are there two editions of the item in two different languages? It is thus easily answered: Until about the middle of the eighteenth century. European scholars wrote mostly in Latin. By that time, however, they began to use their native tongues more and more, until in the nineteenth century the writing of scientific books in Latin disappeared altogether, except for such on the classical languages and ancient history. As long as scholars wrote in Latin it was a special problem how to make available to a wider public the content of such books as had a broader appeal. And this was the case with Kobe's book. It had to be translated.

At this point a third question arises, namely, who translated the book, or, to be correct, who paraphrased it in German, for, according to the preface of the German edition, it was so paraphrased in order to make it a distinctly popular book. Such action has been repeatedly suggested to the author after the appearance of the Latin original and the proposal had appealed to him. As a matter of fact, the preface of

[3] Its title page reads: *Ordinis iuridici prodecanus Georgius Henricus Ayrer D. viri consultissimi Ioh. Friderici Kobii Saxo-Coburgensis superiori anno merito suo gradum doctoris adepti solemnia inauguralia indicit. Praemissa commentatione de emendatione legali rei monetariae in Germania perturbatissimae* (Goettingae, 1761). Kobe defended certain theses on money payments in a period of inflation as it ravaged Germany during the Seven Years' War. He dealt with the same subject again in *Der Kluge Capitalist*, pp. 221 ff. This was an urgent problem for the time; see also the contemporary item by Johann Ludewig Schmidt, *Ausführliche Abhandelung der strittigen Rechtsfrage: In was für Münzsorten ist eine Geldschuld abzutragen* . . . (Jena, 1763).

the German version is signed C. Tr., these letters standing for Carl [Friedrich] Tröltsch. The latter, born in 1729 in Weissenburg am Nordgau (Franconia), was a prolific writer and translator who lived in Erlangen and died in 1807.[4]

II

Let us now look at the content of Kobe's guide, reserving comments to the next section of this article.

Kobe began by pointing out that the jurist was a competent adviser in matters of capital investment, as he undoubtedly was in the Germany of 1760. But, according to the custom of his time and much to the amusement of the modern reader, he tried to prove the assertion by quoting an ancient author, namely, Cicero, which would not convince anybody today.

Three investment opportunities were known to Kobe: trade, land, and money lending, the first of which is not discussed in his book. Of the remaining two, the acquisition of land appeared the safer, or rather *the* safe, investment of capital funds. The investor had to expect a certain amount of trouble from land ownership, however, and the income therefrom was small. Land yielded at the best about 5 per cent and in some parts of Germany less: in Franconia and Suevia, for example, 2½ per cent, in Bavaria, 3 per cent. Moreover, a good many restrictions were imposed on land ownership: churches, monasteries, hospitals, orphanages, etc., could invest in land only with special permission in each case, and those very institutions were often in the possession of considerable funds. Finally, in many cases men of bourgeois origin were enjoined from investing in land previously owned by members of the nobility.

Consequently, hoarding or lending on interest had the greatest importance. The advantage of hoarding consisted in the ready availability of the hoarded funds and hoarding was therefore preferred in many cases. (What modern economist does not immediately think of Keynes' concept of liquidity preference?) The danger that these

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[4] Johann Georg Meusel, *Das Gelehrte Teutschland oder Lexikon der jetzt lebenden Teutschen Schriftsteller angefangen von Georg Christoph Hamberger . . . fortgesetzt von* . . . 5th ed., vol. viii (Lemgo, 1800), pp. 121, 122; Holzmann und Bohatta, *Anonymen-Lexikon*, vol. i (Weimar, 1902), p. 299; Kayser's *Bücherlexikon*, Part v (Leipzig, 1835), p. 475.

funds might be lost through theft or burglary was small; they were not endangered by possible failures or ill will of debtors; there could be no costly and slow legal processes for the purpose of recovery, processes which created so much hostility toward the creditor. It appeared certain to Kobe that the funds of minors should be hoarded rather than invested and that all hoards should be gold hoards.

Before focusing his attention on lending, the remaining investment opportunity, Kobe mentioned in passing the use of funds in betting (as was supposed to be customary in England) and the participation in lotteries. When choosing the latter, the clever capitalist should carefully check the conditions of the particular lottery, should make sure that it was under the control of a reliable government and run for a worthy purpose, such as hospitals or the like. So far, so good! But scrutinizing the text carefully (pages 13 and 14) one recognizes that Kobe was not aware that with regard to lotteries the contemporary wealthy capitalist had two possibilities: He could either contract for lotteries and run them, or buy tickets. It seems that Kobe thought rather of the latter possibility.

When lending, the clever capitalist should abstain from charging usurious interest rates and should ascertain that the loan was safe, advantageous, and easily recoverable. For that purpose he needed exact information about the debtor, especially on the latter's ethical standards. Prodigals and dishonest men were ruled out, but even some "honest" debtors felt that they were not bound to pay a creditor who was rich, and sometimes noblemen evaded the payment of just debts, since the feudal rule then still prevailed in some German territories that scions of the nobility should not be financially ruined. Equally important was the knowledge of the legal setup in the state in which the debtor was domiciled, i.e., the clever capitalist should know whether or not lawsuits were costly and cumbersome there and whether or not the courts were venal. Loans in such states as Prussia and Saxony, where defaulting debtors lost status or were put into prison, respectively, were preferable areas for lending. If, after all precautions, a loan was not recovered when due, the creditor should carefully investigate the situation before suing and also make sure that the cost was not prohibitive.

The clever capitalist, so Kobe felt, should try to get tangible security when lending his funds. He began by describing the various methods of securing a loan, most of which, dating from medieval times, were no longer customary in the eighteenth century so that they

do not concern us in this context. The following methods, however, were actually in use: (1) The creditor could commit a defaulting debtor to prison, which was, of course, common practice in that period and the threat amounted to as much as tangible security. (2) The creditor could demand that the debtor sign a bill which would give him well-known advantages. He was advised, however, to put into the text of the bill a clause which would permit him to have a defaulting debtor arrested in any German territory; he was cautioned not to lose sight of the fact that, if necessary, he had to sue within a certain time in order not to forfeit his rights. The clever capitalist should be careful when lending to noblemen, even if they were willing to sign a bill, because of the many special privileges which were theirs. (3) The money lender could insist on bondsmen, but if he did he should not be afraid of seeking payment from them by all means available in case the original debtor defaulted. (4) The capitalist could lend on general or special mortgage on real estate or the income from real estate. In this case, he must get the consent of heirs and other persons who might have claims of a feudal character. Preferably, he should register the mortgage at a court of law and insert a clause which would permit him to claim costs and damages if the debt was not paid on time. (5) The capitalist could lend on pawns but was not entitled to charge more than 5 per cent. In cities possessing *monts de piété* he did not possess that possibility. If he did, it was important for him to investigate the true value of the pawns and guard against being cheated. He had to watch out that gold and silverware were not alloyed and "jewels" were not in fact worthless mineral crystals or pieces of glass. On the other hand, he had to store the pawns carefully, since he was responsible to the owner for damages. An agreement must be signed by the debtor that the pawn could be sold after a stipulated time in case the debt remained unpaid. Lending on pawns to noblemen was fraught with danger, as is shown in the following section.

At all events and in all cases, the clever capitalist had to be aware of the fact that princes, minors, children, and wives had certain claims on properties administered by certain categories of potential borrowers, claims which took precedence over those of creditors. He should also understand that in case of his debtor's bankruptcy the latter did not have to pay over all his property, but could retain as much as he needed for proper maintenance within his status provided he was a

nobleman, minister, professor, or doctor. Who of us academicians would not long for those golden days?

III

Turning to an analysis of Kobe's book, the historian will be impressed, almost at first glance, by the economic backwardness manifested therein. About a hundred years after the peace treaties of Münster and Osnabrück, Germany had not yet recovered from the ravages of the Thirty Years' War. Investment activities were then as restricted in Germany as they were at the same time in the American colonies; trade, land, and money lending were, by 1760, in Germany, as well as in the American colonies, practically the only opportunities available to wealthy capitalists. With regard to that segment of capitalistic development, Germany was then approximately a hundred years behind the Low Countries and about seventy-five years behind England.

The historian is much surprised not to find any mention of deposits with bankers. Only two decades later the need of safe depositories for the funds of capitalists played a considerable role when in the 1780's and 1790's banks were desired and chartered in America. To be sure, when Kobe wrote, Germany possessed one bank of deposit, the Girobank of Hamburg, which worked for merchants only and was actually outside the scope of Kobe's guide. But the question of whether or not there were at that time really no deposits of capitalists with merchant bankers, remains an open one. Such deposits are known to have been in existence in Germany in the 1790's and the problem is whether they did not actually exist as yet in the 1760's or Kobe was only unaware of their existence. The author confesses his inability to answer the question at this time. One must keep in mind that Kobe lived all his life far away from the centers of commercial activity and may well have been ignorant of that opportunity which, however, was hardly one of investment in the modern sense, no evidence having appeared of interest being paid in Germany on such deposits as late as 1800.

Secondly, equally conspicuous by their absence are public securities as instruments of investment. In Britain the public debt was created in the last years of the seventeenth century and, by 1780, as contemporary publications show, consols were widely used as investments by

capitalists.[5] The French situation is much less clear, but there existed in that country, when Kobe wrote, a welter of public loans; a certain percentage of them was held by French investors just as British consols were then owned by the English. On the other hand, for the most advanced country, Holland, we have the contemporary description in Samuel Ricard's *Traité Générale de Commerce*, the third edition of which was brought out by Thomas Antoine de Marion in Amsterdam in 1781. He speaks for that period of a mania for security flotations, and that was only about 15 years after Kobe's book appeared. Not for decades did the German capitalist come to take an interest in public stock (i.e., bonds, in the modern terminology). As late as 1824, an anonymous German book appeared which represented for the investment and speculation in securities a guide similar to that which Kobe had published for the traditional kinds of investments. Interestingly enough this later book has a title similar to Kobe's, namely, *Der Kluge Kapitalist oder Praktische Darstellung der verschiedenen Arten Geschäfte und Spekulazionen in Staatspapieren* . . . (Wien, 1824).[6] When this item was published, the German public still knew little about public securities as instruments of investment and speculation.

However, German middle-eighteenth-century backwardness in business is shown up not only by the lack of investment opportunities then already available in Western Europe, a lack which is implied in Kobe's presentation, but it is also brought out by Kobe's treatment of other subjects. The discussion of hoarding is a case in point.[7] No serious writer in the era of high capitalism would ever have recommended hoarding as Kobe did, but by way of comparison the reader should be reminded that in America hoarding played a role in the West as late as about 1900.

Even more telling is the material which shows German public credit still in an early embryonic stage. In Kobe's time, German public credit was still more or less intertwined with that of individual members of ruling dynasties and other noble families. Nevertheless, this

[5] See my book *The Molding of American Banking, Men and Ideas* (New York, 1951), vol. ii, p. 306.

[6] "The Clever Capitalist or a Practical Guide to the Different Kinds of Business and Speculative Transactions in Public Securities." This book is in the library of the University of Heidelberg and a microfilm is in Baker Library.

[7] Kobe himself used the words "*in den Schrank einschliessen oder vergraben*" (p. 11); i.e., lock up or bury.

unseparated welter of investment opportunities had already become so important and at the same time so tricky that Kobe devoted far more than one-half of the book to this subject. It is not so easy for the modern reader to follow him step by step, but this much is brought out clearly: Desirable debtors were the estates of German territories (*Landstände*) which, if they did borrow, borrowed for what we call productive purposes today or at least for the benefit of the territory (for the purpose of "improvement," to use this old-fashioned word). Equally desirable were city loans, especially those of free cities: "*republica non moritur,*" quotes Kobe. When lending to cities under the control of a territorial government, the clever capitalist was warned to see that the latter had approved the loan. Similar precautions were needed when lending to high clerics, monasteries, and other Catholic and Protestant church institutions. In view of their desirability, loans to estates and free cities paid an interest ranging between 3 and 4½ per cent, while those to church organizations yielded an interest of between 4 and 4½ per cent.

It was a different matter to lend to members of noble families, since lending to the head of a ruling family represented disguised public credit. The latter was owing to the fact that in Kobe's time the possessions of a sovereign appeared essentially still as his estate, at least in Central Europe. In contrast with contemporaneous conditions in Western Europe, genuine public credit had not as yet cut loose from private borrowing of the head or members of sovereign families. Such borrowing, as that of members of other noble families, was usually for purposes of consumption (and true government needs, manifested in the borrowing of sovereigns, appeared to contemporaries as of a consumptive character, also). Lending of that nature was even for the cautious capitalist outright dangerous. To be sure, some noblemen were honest debtors, they mortgaged their estates or the income thereof, and often, to pay their creditors, consummated a judicious marriage "even," if you please, with a woman of bourgeois origin.

But what was going to happen when the original honest borrower died? Would his successor and heir be equally honest and recognize loan and mortgage? In innumerable cases he did not, and in this position he was aided and abetted by the existing law. Back of that legal system, coming down from medieval times, was the philosophy that the law should favor the nobility, which was presumably rooted in merit and virtue. The law should, if unavoidable, rather discriminate against traders and wealthy citizens. It seemed not probable to

the ruling strata of contemporary German society (including Kobe himself) that a state based on money and exchange, or in other words on rich merchants and wealthy *rentiers*, was superior to one whose pillar was the landed nobility.[8] Such a legal philosophy was, of course, bound to retard the development of business. Even at best, the debtor of a defaulting nobleman had to leave him enough income to eat, and dress, and have servants, as was appropriate to his rank. The consequence was that often holders of such loans became disgusted and sold them at a heavy discount to some Jewish money lender (p. 67). To be sure, for the purpose of comparison it should be remembered that in Virginia, even after the Revolutionary War, land was exempt from seizure for debt.

Reading those many pages of Kobe's book which deal with that intricate subject, one comes to consider them as one great exhortation: "Clever capitalist keep away from lending to noblemen," although Kobe expressly warns his readers that that interpretation of his discourse would be a misunderstanding. On the other hand, some of his statements show clearly that times were changing, as the historian knows from other sources, too. The above statement in which the difference between a mercantile and a feudal state is pointed out shows that the wind was blowing into Germany from the West; and this wind would bring an air in which business could better flourish than under the older climate. Moreover, Kobe himself criticized the traditional legal setup on the basis of "natural law." The natural law concept never took root in Germany as it did in Western Europe, and the fact that Kobe used this concept shows that he was for his time a modern and progressive man. As a matter of fact, only a few years after the appearance of the latter's book, Frederic II of Prussia institutionalized the mortgage credit of noble landowners and put it on a cooperative and secure basis, using the strictly modern instrument of mortgage bonds. Thereafter no investor had to be afraid of putting his money into securities issued by the so-called Prussian *Landschaften*, i.e., of lending on mortgage to Prussian noblemen.

One may ask, what does all this have to do with business history? First of all, the "clever capitalists" who were engaged in this kind of lending were not genuine investors but merchant bankers. That is to say, in the larger part of his book, Kobe does not really speak of

[8] This important passage is on page 120 of Kobe's book.

investment proper but rather deals with the legal aspects of the most complicated financial transactions of wealthy banking houses. Secondly, it was for the merchant bankers of the 1760's that the German version of Kobe's book must have been of considerable interest, and one wonders if it was actually read by some of them. Kobe's discourse is of historical importance in that it shows the climate in which eighteenth-century German business worked. It was obviously not a favorable one. Nevertheless, just at the time when Kobe wrote and in just this climate, Germans were born who in their prime blazed the trail and in their country led the forces of the Industrial Revolution. Such men were, for example, Johann Gottlob Nathusius (b. 1760), a pioneer of modern beet sugar industry; or Peter Eberhard Müllensiefen (b. 1766), one of the founders of the Westfalian steel needle manufacture; or Franz Dinnendahl (b. 1775), one of Germany's earliest steam engine builders; or Gottlob Julius Jacobi (b. 1770), who cast the iron parts of the former's engines and later fell heir to the market which Dinnendahl had created.

IV

What then is the permanent interest which attaches to Kobe's guide of 1766? In a way Kobe raises the corner of a curtain and permits us to see the contemporary German capitalist and merchant banker sitting rather bewildered and cramped in the lower stories of an ancient house. It was full of old-fashioned furniture and the fundaments urgently needed overhauling. The air in the building was stuffy and loaded with a smell of decay. However, one was accustomed to live in that house and glad to receive advice on how to do it profitably. That is what Kobe's guide amounts to. But unbeknown to everybody who read the book at the time of its appearance, the men were already being born who were destined to throw open the windows, to lay new foundations, and to redistribute the living quarters. That redistribution would move the capitalist and banker into some of the most desirable apartments in which they would remain for about a century, until the era of earthquakes beginning in 1914 was to shatter the old German homestead.

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EDITOR'S COLUMN

What was the origin of the board of directors? What is the history of the office of president? What have been, historically, the form and functions of the various corporation executives and how did these come to constitute a coordinated administrative organization? Mr. Cyril O'Donnell, Lecturer in Business Administration at the University of California at Los Angeles, in the article "Origins of the Corporate Executive" looks at many early companies for answers to these and other questions. He introduces the reader to a subject that merits full study for the light that past experience would throw on the subject of corporate organization in theory and practice.

In "The Williams Brothers, Merchants and Shippers, 1825-1850," Miss Anita Shafer deals with a type of enterprise that has played an important part in the history of American business. Beginning as small country merchants, the Williams brothers, up-state New York businessmen, by means of several partnerships, carried on a varied business, reaching out for whatever opportunities for profit presented themselves in their rapidly growing region. Their combination of several functions on a relatively small scale soon, however, gave way to larger specialists of the next generation of businessmen. As similar mercantile groups had earlier operated in the older communities of this country, and indeed in Europe for hundreds of years past, so others like them helped to organize and carry on economic life in the advance of American settlement westward. In regions with less potentialities for growth than that in which Williams Brothers operated, this type of combination of nonspecialists has had a longer existence.

Dr. Fritz Redlich in "An Eighteenth-Century German Guide for Investors" not only introduces the reader to a rare book but also gives a glimpse into German business of the eighteenth century. The opportunities for investment with which this early investment counsel dealt were relatively restricted in comparison with those of our times, but the pitfalls were, nevertheless, many. The contrast which Dr. Redlich draws between the investment situation in Germany of the time and in contemporary countries to the westward in Europe is both interesting and significant.

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"An Evaluation of Business History" was the subject of a joint session in Chicago, on April 18, 1952, of the Economic History Association and the Mississippi Valley Historical Association. Professor Thomas R. Navin of the Harvard Graduate School of Business Administration read a paper entitled "A Business Historian's Evaluation of Business History" and Professor Chester McArthur Destler of Connecticut College presented "An Historian's Appraisal of Business History." The discussion which followed was led by Professor Bennett H. Wall of the University of Kentucky and Professor Harold F. Williamson of Northwestern University. Nothing—in the judgment of the Editor—contributes so vitally to the healthy growth of business history as a clear and vigorous examination of the assumptions, methods, and conclusions of the historians dealing with the subject such as was presented from various points of view at this meeting. Indeed, every practitioner in the field should constantly subject his own research and thinking to rigorous scrutiny, but the process is sharpened by a critical examination of his work by other historians. The Chicago session demonstrated how important it is that business historians guard their independence and objectivity and that they also beware of becoming primarily revisionists.

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A significant Danish interest in the history of business is indicated by the annual publication of the *Erhvervsarkivet* at Aarhus. These archives, now ten years old, were established for the purpose of collecting, preserving, and making available to scholars the records of private business firms and men and of business associations. The collection is supported by private gifts, foundations, the Danish government, and the municipality of Aarhus. Records are received for unrestricted use or on deposit with the conditions of use stipulated. Since 1950 the archives have been housed in one of the buildings of the University of Aarhus.

The *Erhvervshistorisk Aarbog* has been published annually since 1949. It reports that the collections already accessioned represent some 700 concerns or activities and about 60 different occupations and fields of business from 1670 to 1949. The records consist largely of account books and correspondence. Besides reporting accessions of new records, the *Aarbog* contains articles which demonstrate that the business records in the archives are being used by scholars.

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